

2015 Industrial Revitalization Fund

Program Design



**VIRGINIA DEPARTMENT OF HOUSING
AND COMMUNITY DEVELOPMENT**
Partners for Better Communities

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INTRODUCTION

The General Assembly has allocated \$2 million for Fiscal Year 2015 (FY '15) to be used for the strategic redevelopment of vacant and deteriorated industrial properties across the Commonwealth. For the purposes of this program, the term “industrial” will be considered to mean any large-scale, non-residential structure. Remnants of past economic vibrancy and local economies in transition, these structures are no longer suited for their former purpose, and in their current deteriorated condition, stand as significant deterrents for future economic opportunity in the surrounding area and region.

Financial barriers typically block the timely redevelopment of these structures and often they require more than local resources to attract private sector investment in order to make a deal cash flow. This is especially true in distressed areas. Therefore, the \$2 million allocation is meant to leverage local and private resources to achieve market-driven redevelopment of these structures, creating a catalyst for long-term employment opportunities and on-going physical and economic revitalization. Eligible properties and structures must be vacant and deteriorated and may be redeveloped for any market-driven purpose including mixed-use, regardless of the original use.

Availability of Funds

The \$2 million available in FY '15 is a one-time allocation to replenish the Virginia Derelict Structures Fund (DSF) established under 36-152 of the Code of Virginia. The Virginia Department of Housing & Community Development administers these funds under the Industrial Revitalization Fund (IRF) Program.

Award Amounts

The maximum IRF award is to \$600,000 per project. A project may apply for less; however, IRF awards may not be used as a substitute for other funds the applicant has already committed to a project. IRF awards require at least a 1:1 match.

ELIGIBILITY

Eligible Applicants

Only local governments (cities, counties, or towns) and regional or local economic or industrial development authorities may submit applications for funding. A unit of local government may apply directly for funding to use on publically owned property OR on behalf of a private developer for privately owned property.

- **A local government may apply for an IRF GRANT under the following conditions:**
 - If the property is publically owned;
 - If the privately owned property has an option agreement/contract in place for purchase at time of the application; or
 - The private property is owned by a non-profit entity.

Upon resale of property to private, for-profit entity, DHCD will require repayment of prorated grant amount. Localities may designate a redevelopment authority or another similar organization as an agent for



project implementation and administration.

- **A local government MUST apply for an IRF LOAN on behalf of a private, for-profit entity for use on privately owned property under the following conditions:**
 - Financing to complete the entire project as specified in the IRF application has been secured as evidenced by formal letters of interest, term sheets, or commitment letters;
 - Projects must be ready to close on the IRF loan within three to six months of DHCD's project award notification. IRF loans may close simultaneously with the first trust lender for primary financing or after, however, IRF loans **will not close before** all other sources of primary financing are closed or commitment letters with a closing date have been issued. Failure to close within six months will result in the IRF funds being reprogrammed to another project. The applicant will be given the opportunity to apply again once the project is more prepared for IRF loan closing. DHCD has the discretion to award extension beyond six months but only under certain circumstances for delays that are not under the developer's control; and
 - All IRF loans will be underwritten by Virginia Community Capital (VCC). The following standard terms and conditions will apply to all projects unless VCC and DHCD determine that a regionally significant project requires more favorable terms.
 - Interest Rate: 2.5%
 - Amortization: 10 Years
 - Commitment Fee: 1% (50% due within 14 days of execution of IRF agreement and remainder due at IRF closing.)

Match

To demonstrate project viability and the applicant's commitment, applicants are required to provide a 100 percent (1:1) local match from private or public sources. The match must either be cash or documented costs that are directly associated with the work being done on the property where IRF funds are expended. Local match may also include federal (CDBG or other), local, and private funds spent on activities directly related to the targeted project on or after July 1, 2013.

A locality may use as local match an additional five (5) percent out-of-pocket administrative costs. The use of the additional five percent of administrative costs as local match must be outlined in the application.

Example: *An applicant that is seeking a \$300,000 IRF grant must provide a match of at least \$300,000. Local match greater than 100 percent will increase the application's score.*

Eligible Use of Funds

The IRF program is flexibly designed so that funds can be used for a wide variety of revitalization and redevelopment activities such as **acquisition, rehabilitation, or repair** (including securing and stabilizing for subsequent reuse) of specific structures, as well as **demolition, removal, and other physical activities**.

In the case of acquisition, DHCD will limit its financial participation to the property's fair market value and the associated legal costs of acquisition. IRF funds may also be used for the legal costs associated with demolition. However, funds may not be used **solely** for acquisition or demolition unless it can be demonstrated that the locality has committed other redevelopment funds to the property, and there is a market-based



redevelopment plan in place that outlines possible reuse options, target markets/niches, and a property marketing strategy including the entity responsible for implementation. In addition, action must be taken by the locality to improve the property's readiness for redevelopment. Generally, demolition should be used only in circumstances where the size or location of a building precludes any significant redevelopment potential or in cases where there is an imminent safety threat.

Site remediation is **not** an eligible activity for IRF. Virginia's Department of Environmental Quality offers several programs to assist with remediation and environmental assessment including the Voluntary Remediation & Brownfields Programs. Visit <http://www.deq.virginia.gov/> for more information.

Eligible Properties

The program is targeted toward (functionally) **vacant and deteriorated** properties whose poor condition creates a notion of physical and economic blight in the surrounding area. Projects may consist of multiple properties provided they are adjacent and/or adjoining and are related in either their negative impact (e.g., three adjacent severely deteriorated downtown buildings that create a negative impact on the remainder of the block) or end use (e.g., rehabilitation of an abandoned warehouse into a shell building with purchase of adjacent property for parking.)

Eligible properties and structures may be redeveloped for any market-driven purpose including mixed-use, regardless of the original use.

Former Use:	
Eligible	Ineligible
<ul style="list-style-type: none"> • Manufacturing • Warehousing • Mining • Transportation • Power production • Department stores • Theaters • Hotels • Shopping centers 	<ul style="list-style-type: none"> • Solely residential • Scattered site projects

FUND ACCESS

In the case of **GRANTS** to units of local government, a contract between DHCD and the applicant outlining end products, conditions, fund disbursement and termination must be executed before any funds are disbursed. Funds may only be used for **expenses incurred after the signing of the contract**. IRF grant funds are available on a **reimbursement basis only**. Funds may be drawn down to **reimburse costs** the applicant has incurred and paid for.

In the case of **LOANS** to private entities, IRF funding will be released to the private developer pro-rata with other funders or once other sources are expended. This will be determined in discussion with developers



upon DHCD's award notification.

Funding Priorities

The ultimate intent of the IRF program is to fund **ready-to-go** projects that will act as a catalyst to spark additional private investment and job creation in distressed areas that have been targeted for economic development and community revitalization as part of a larger economic restructuring strategy. Based on that intent, DHCD has established the following funding priorities:

1. Clear relationship to a local or regional economic development strategy

Applicants must identify the economic development strategy that the proposed project will support. This strategy should be an element of an existing redevelopment, blight removal, or economic development plan. Applicants must explain what is currently being done in the area and how the IRF funds will supplement and expand this ongoing economic development and restructuring process. In other words, how does this IRF project enhance the economic restructuring and development activities of the community and region?

2. High degree of blight and deterioration to be addressed

Applicants must describe the extent of the deterioration and identify the negative impact the property is having in the community. DHCD is seeking to invest in properties that will address their negative impact on the community's ability to attract private investment and job creation to areas beyond the specific location of the property. Applicants must demonstrate that addressing the property is a local priority, and projects that seek to repurpose the property will be given more consideration over projects that focus on demolition/site clearance.

3. Project readiness with a clear end use

DHCD will give greatest priority to projects that will lead to the efficient and **immediate** redevelopment/re-use of blighted properties. Therefore, successful applicants will be able identify a tangible end-use to be completed in a reasonable amount of time. In the case of private developers, projects that can demonstrate "readiness to proceed" will be given the greatest consideration. Readiness to proceed is demonstrated by having finalized plans and **primary financing** in place (formal letters of interest, term sheets or letters of commitment) for an identified **end-use/user**. Projects that can show the ability to close on the IRF loan within six months of an IRF award notification will be the most competitive for funding. Projects on publically-owned property or property owned by a non-profit will also receive more favorable consideration with evidence of the availability of funding to complete the project.

4. End use will have a clear and significant economic impact

Applicants must describe how the project will have a clear positive economic impact on the area. Applicants must demonstrate how the completion of the IRF project will be a catalyst to larger economic revitalization efforts in the locality and region.

5. Higher degree of applicant economic distress

Extra consideration will be given to projects located in communities that are experiencing higher degrees of distress. This will be based on three measures below, using data from the U.S. Census



Bureau and the Virginia Employment Commission. Scoring will be weighted based on the number of distress measures the locality is experiencing.

- a. **Poverty rate** of at least 150 percent of the state average (17.7%);
- b. **Median household income** of 70 percent of the state average (\$43,247); and
- c. **Unemployment rate** of at least 150 percent of the state average (8.25%)

See “Appendix A” of the 2015 IRF Application Instruction Manual for pre-calculated scores for all cities and counties. The Instruction Manual is available online at www.dhcd.com/irf

Other Considerations

DHCD encourages localities to apply for projects that will have a strong significance to the broader community and region, in areas of ongoing or identified redevelopment/revitalization. Applicants will receive up to **5 bonus points** for projects that meet the following characteristics:

- Part of a significant **regional focus**. This includes projects located in an area covered by a revenue sharing agreement or projects cited in a formal regional economic development plan.
- Eligibility for local real property tax abatements (§58.1-3221) or other **local incentives** to encourage investment.
- Location in an **Enterprise Zone** and ability to qualify for the state and local incentives. **IRF loans** may be included in the Enterprise Zone RPIG calculation; however, **IRF grants** must be backed out.
- Location in a designated **Virginia Main Street** community, a local, state or federal **historic district**, a **redevelopment or blight removal district**, a **Technology Zone**; or other similar district.
- Location in a current **CDBG project area**.

Prioritization

A locality may only submit one application per funding round; therefore localities must identify and authorize the project that will have the most meaningful impact on local community revitalization and economic development efforts. As such, a resolution from the local governing body authorizing the request for funding is an application requirement. If the locality is applying on behalf of a non-profit or private for-profit, the resolution should indicate the specific match amount and identify the entity that will be responsible for coming up with the match funds.

For more information, on this program or submission, please contact:

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